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Assessment of Listed Cement Companies in India with Reference to Specific Valuation Parameters

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ABSTRACT

Aim: This study aims to assess selected listed cement companies in India in terms of specific valuation parameters.

Methodology/Approach: The study uses secondary sources of data collected. The data period ranged from 2017-2018 to 2021-2022. The various tools and techniques used are; Valuation metrics analysis. [Enterprise Value (EV), EV/Net Operating Revenue, EV/EBITDA and P/E Ratio] and Descriptive statistics [Mean, Standard Deviation (SD), Coefficient of Variation (CV) and Compound Annual Growth Rate (CAGR)].

Summary: The study found that UltraTech Cements Ltd. is the most valued company in terms of enterprise value. Shree Cements Ltd. commanded the highest P/E ratio as well as higher valuation for EV/Net Operating Revenue and EV/EBITDA parameter among them all. ACC Ltd. Heidelberg Cement India Ltd. ranked lower in terms of total enterprise value, EV/Net Operating Revenue, and EV/EBITDA parameter among them all. While Heidelberg Cement India Ltd. commanded lowest mean P/E ratio. Barring the variance in price to earnings data Ambuja Cements Ltd. witnessed high variability measured in terms of CV across the metrics of EV, EV/Net Operating Revenue and EV/EBITDA. At the same time UltraTech Cements Ltd. witnessed highest volatility in its P/E ratio as measured by CV for run on the five years data.

KEYWORDS: *Corporate Valuation, Cement Companies, Valuation Metrics Analysis*

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1. INTRODUCTION

The valuation of corporations is a critical area of study for investors, analysts, and financial experts alike. One industry that has garnered significant attention in recent years is the cement industry, which plays a pivotal role in the construction and infrastructure development sector. This investigation delves into the valuation of selected cement companies, providing evidence-based insights into the financial performance and market position of these organizations.

The valuation of corporates is a critical aspect of financial analysis and decision-making. It involves the estimation of the value of a company based on its assets, liabilities, earnings, and future cash flows, market price of share and so on. Valuation is essential for various purposes, such as mergers and acquisitions, investment analysis, and financial reporting.

2. REVIEW OF LITERATURE

Chen, M. et al. (2005)

The purpose of this article is to investigate empirically the relation between the value creation efficiency and firms' market valuation and financial performance. Using data drawn from Taiwanese listed companies and Pulic's value added intellectual coefficient (VAICe) as the efficiency measure of capital employed and intellectual capital, the authors construct regression models to examine the relationship between corporate value creation efficiency and firms' market-to-book value ratios, and explore the relation between intellectual capital and firms' current as well as future financial performance.

The results support the hypothesis that firms' intellectual capital has a positive impact on market value and financial performance, and may be an indicator for future financial performance. In addition, the authors found investors may place different value on the three components of value creation efficiency (physical capital, human capital, and structural capital). Finally, evidence is presented that R&D expenditure may capture additional information on structural capital and has a positive effect on firm value and profitability.

Radha, B. & Shree, A. (2017)

The aims of this article a study on corporate valuation on selected Indian firms**.** The data is analysed by using financial models like discounted cash flow method, dividend growth model applied for rubber tyre companies and done comparative studies. The using DCF models were Automotive Axles Limited has the better cash flow in firm and equity compare to the Rani Madras and Hindustan Hardy Spicer Limited. The three companies are undervalued but deviation is only AAL company as high rate which expectation of company is more compare to trading value.

Hendrawan, R. & Tugiman, R. (2020)

This research aimed to assess the fair value of stock price at cement companies listed in Indonesia Stock Exchange using discounted cash flow (DCF) with free cash flow to Firm (FCFF) approach to calculate the value of a company and relative valuation methods with price earning to ratio and price book to value approach to validate DCF result. The research data were derived from historical data 2013 – 2017 which considered as reference for projection years 2018 – 2022 involving three scenarios namely pessimistic, moderate and optimistic scenario and the value of the research compared within market price on January 2, 2018. Findings from this research showed that using DCF FCFF fair value on INTP has overvalued in all scenarios, for SMCB and SMBR have overvalued in the pessimistic scenario but undervalue in moderate and optimist scenarios. Furthermore, in relative valuation method within PER and PBV, the research is within the industry range that means the result of a calculation is proper.

Rodríguez-Valencia, et al. (2023)

This study aims to compare the market value of private firms and publicly listed small and medium-sized firms (SMEs) in alternative stock markets through a private discount approach with estimates of value based on discounted cash flow projections and along with a comparable multiples approach. The valuation methodology applied in this study yielded a final sample that included 232 observations between public and private companies in the Spanish market. To calculate the discount, they apply the different approaches of discounted cash flow and multiples, such as valuation, earnings, book value, and revenue. Their results conclude there is no private discount, instead, the outcomes of this article suggest a premium over public firms for some ratios. The negative private company discounts mean a premium and, on the other hand, some multiples suggest a discount according to the method of valuation. This paper proves private discounts resulted does not have any comparable value within the same country although all firms in Spain use the same currency. They value the discounted cash flows of their forecasts using a discount rate based on the capital asset pricing model (CAPM), so their study can also be viewed as a test sensitivity of CAPM-based approaches to equity risk premium, terminal value, and growth rate.

3. RESEARCH METHODOLOGY

3.1. Objectives of the Study

The study has the following objectives:

- To assess and make a comparative analysis of different cement companies across different valuation parameters.
- To make observations on the companies under study how they fair with reference to popular valuation metrics prevailing at the time of the research.

Table No. 3.1. Research Methodology of the Study

Sample Design	The companies selected hereunder are listed on BSE (Bombay Stock Exchange) of India. ➢ UltraTech Cement Ltd. ➢ Shree Cements Ltd. ➢ Ambuja Cements Ltd. ➢ ACC Ltd. ➢ Heidelberg Cement India Ltd.
Data Collection	Secondary sources of data will be utilized for this proposed research study. Secondary data have been collected from selected Cement companies' annual reports. Figures and metrics pertaining to valuation is taken from different sources like Screener, moneycontrol etc.

Period of Study	It is between 2017-2018 to 2021-2022.
Tools &Techniques	This study has been done by analysing and interpreting data in following ways. ➢ Valuation Metrics Analysis. [Enterprise Value (EV), EV/Net Operating Revenue, EV/EBITDA and P/E Ratio] ➢ Descriptive Statistics. [Mean, Standard Deviation (SD), Coefficient of Variation (CV) and Compound Annual Growth Rate (CAGR)]

4. DATA ANALYSIS AND INTERPRETATION

4.1. Enterprise Value

Enterprise value is a financial metric that considers a company's market capitalization, debt, and cash on hand to determine its total value.

Tabal.No.4.1. Enterprise Value (₹ Crore)

Company Name	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	Mean	SD	CV	CAGR (%)
UltraTech Cement Ltd.	2,00,216	2,07,510	1,11,718	1,28,799	1,24,779	1,54,604	45481	29	13
Shree Cements Ltd.	88,463	1,07,977	65,650	67,392	59,649	77,826	20061	26	10
Ambuja Cements Ltd.*	97,275	70,849	46,532	34,314	41,268	58,048	25885	45	24
ACC Ltd.*	34,281	24,533	22,620	25,288	30,411	27,427	4794	17	3
Heidelberg Cement India Ltd.	4,101	5,144	3,030	4,154	3,482	3,982	798	20	4

From the above table, we can see that the EV has been growing astoundingly for Ambuja Cements Ltd. at 24% CAGR while for UltraTech Cement Ltd. and Shree Cements Ltd., the growth has been moderate around 10%. While ACC Ltd. and Heidelberg Cement India Ltd. lagged behind with a meagre 3 and 4 percent CAGR. Ambuja Cements Ltd.'s saw huge oscillations in its EV which can be seen in the higher CV number. Clearly ACC Ltd and Heidelberg Cement India Ltd. failed to accelerate its efficiency over the past five years and hence they have suffered to add into their EV vis-à-vis their peers in the given study.

In terms of the total enterprise value taken on the basis of five years mean UltraTech Cements Ltd. topped the chart followed by Shree Cements Ltd. and Ambuja Cements Ltd. while Heidelberg Cement India Ltd. and ACC Ltd. had the lowest mean enterprise value among the set.

4.2. EV/Net Operating Revenue

The EV/Net Operating Revenue ratio measures the valuation of a company relative to its operating revenue. A low ratio indicates that the company is undervalued relative to its operating revenue, while a very high ratio indicates that the company is overvalued.

Tabal.No.4.2. EV/Net Operating Revenue (Times)

Company Name	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	Mean	SD	CV
UltraTech Cement Ltd.	3.95	4.80	2.75	3.22	4.19	3.78	0.81	21.37
Shree Cements Ltd.	6.18	8.58	5.51	5.75	6.07	6.42	1.24	19.28
Ambuja Cements Ltd.*	6.18	5.07	4.09	2.94	3.63	4.38	1.27	28.95
ACC Ltd.*	2.12	1.78	1.44	1.71	2.29	1.87	0.34	18.10
Heidelberg Cement India Ltd.	1.79	2.43	1.40	1.95	1.84	1.88	0.37	19.66

A close analysis of the table illustrating the EV/Net Operating Revenue showcases that The CV for ACC Ltd. Shree Cements Ltd. Heidelberg Cement India Ltd. and UltraTech Cement Ltd remained around 20 which seems to be the norm while for Ambuja Cements Ltd the CV shot up to 29 demonstrating possible huge ups and downs in its operating figures over the period.

ACC Ltd. has the lowest EV/NOR ratio among the listed companies, with a mean ratio of 1.87 times over the period of 2017-2022. This indicates that the company's operations are valued lower in relation to its enterprise value. Heidelberg Cement India Ltd. follows next, with a mean EV/NOR ratio of 1.88 times over the same period. Shree Cements Ltd. has the highest EV/NOR ratio among the listed companies, with a mean ratio of 6.42 times. This indicates that the market values the company's operations relatively higher compared to its enterprise value. UltraTech Cement Ltd. and Ambuja Cements Ltd. have moderate to low EV/NOR ratios, with mean ratios of 3.78 times and 4.38 times, respectively.

4.3. EV/EBITDA

EV/EBITDA (Enterprise Value/Earnings Before Interest, Taxes, Depreciation, and Amortization) is a valuation ratio that measures a company's total value relative to its earnings power. A lower EV/EBITDA ratio implies that a company is cheaper relative to its earnings potential.

Tabal.No.4.3. EV/EBITDA (Times)

Company Name	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	Mean	SD	CV
UltraTech Cement Ltd.	17.34	17.66	11.91	17.00	19.26	16.63	2.78	16.71
Shree Cements Ltd.	21.14	24.47	16.64	23.25	20.84	21.27	2.99	14.07
Ambuja Cements Ltd.*	30.30	20.28	15.42	13.32	18.21	19.51	6.59	33.79
ACC Ltd.*	10.70	9.60	8.31	11.58	14.90	11.02	2.49	22.61
Heidelberg Cement India Ltd.	8.48	9.3	5.22	8.02	9.08	8.02	1.64	20.50

The above table shows how the companies under study fared when it came to the valuation measurement comparing the EV with profitability. We all know that the higher this ratio the better the market is valuing the firm. We can see that the ratio for UltraTech Cement Ltd., Ambuja Cement Ltd. and Shree Cements Ltd. remained between 16-22 range of mean value while the same for ACC Ltd. and Heidelberg Cement India Ltd. was on the lower side at between 8 and 11. This showcases that the markets values the former companies higher on their profitability horizon while the latter lesser.

If we consider the variations across the given study period for all companies' changes in the market's perception of each companies' EV/EBITDA valuations assignment; we find that most companies' metric varied between an SD value of 2-3 which is a trend while high variations was witnessed only in Ambuja Cements Ltd. which was 6.59. Hence, we can say that this particular company cannot be valued on this valuation metric but the rest of them can be.

4.4. P/E Ratio

P/E ratio is a financial metric used to measure the valuation of a company's stock by dividing its current market price per share by its earnings per share (EPS). The higher the P/E ratio, the more expensive the stock is relative to its earnings, and vice versa. Therefore, a high P/E ratio can indicate that investors have high expectations for future earnings growth, while a low P/E ratio may indicate undervaluation or lower growth prospects.

Tabal.No.4.4. P/E Ratio (Times)

Company Name	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	Mean	SD	CV
UltraTech Cement Ltd.	25.95	35.6	16.32	45.7	48.79	34.47	13.55	39.31
Shree Cements Ltd.	37.12	46.52	41.29	64.51	40.73	46.03	10.86	23.59
Ambuja Cements Ltd.*	26.96	20.89	18.61	20.46	35.51	24.49	6.92	28.24
ACC Ltd.*	22.35	21.25	19.7	18.59	35.71	23.52	6.96	29.61
Heidelberg Cement India Ltd.	17.02	16.77	12.01	18.58	24.21	17.72	4.38	24.74

The above table shows five years figures of price to earnings ratio (P/E) of the selected companies. We can see that the market is valuating Ambuja Cements Ltd., ACC Ltd. at mean P/E ratio of around 23-25 over the past five-year period. The SD for them is also around 7. We can safely say that the market is assigning similar risk weightage to both the companies. On the other hand, Heidelberg Cement India Ltd. commanded the lowest P/E ratio at 17.72 among the pack, however the positive side was that it was also the preferred choice for investors seeking low volatility refuge as the SD is also the least among all at 4.

UltraTech Cement Ltd. Shree Cements Ltd. commanded the highest price to earnings metric valuation over the given study period out of all companies. However, having said that Shree Cements Ltd.'s share was able to command the highest P/E ratio of 46.03 while keeping the volatility measured in terms of CV at par with other companies shares in the study. This makes it the most coveted and sought-after firm assessed under this parameter while making UltraTech Cement Ltd. the second highest valued firm notwithstanding at a much higher risk volatility.

5. SUMMARY

From this study which analysed valuations metrics like EV, EV/Net Operating Revenue, and EV/EBITDA, P/E ratio; we came to certain conclusions which are as follows.

On the basis of EV as a whole, UltraTech Cements Ltd. is the most valued, while ACC Ltd. and Heidelberg Cement India Ltd. failed to accelerate its efficiency over the past five years and hence they have suffered to add into their EV vis-à-vis their peers. Also, Ambuja Cements Ltd.'s EV saw huge oscillations which demands further enquiry before considering this metric for any investment decision in this firm.

Similar pattern can be traced when used the valuation metric of EV/Net Operating Revenue. In which ACC Ltd. and Heidelberg Cement India Ltd. were undervalued while Shree Cement Ltd. was overvalued followed by Ambuja Cements Ltd. and UltraTech Cement Ltd.

On the basis of EV/EBITDA, the market values UltraTech Cement Ltd., Ambuja Cement Ltd. and Shree Cements Ltd higher while ACC Ltd. and Heidelberg Cement India Ltd are valued lower by the market forces.

The market is valuating Ambuja Cements Ltd., ACC Ltd. at mean P/E ratio of around 23-25 over the past five-year period. On the other hand, Heidelberg Cement India Ltd. commanded the lowest P/E ratio at 17.72 with least dispersion form mean. Shree Cements Ltd.'s share was able to command the highest P/E ratio of 46.03 while keeping the volatility measured in terms of CV at par with other companies shares in the study.

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Notes:

- Ambuja Cements Ltd*and ACC Ltd* follows the calendar year.
- EBITDA = Earnings Before Interest, Taxes, Depreciation, and Amortization
- NOR = Net Operating Revenue
- P/E Ratio = Price to Earnings Ratio